

CITY OF DENVER

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
& SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2006

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City of Denver

Officials

<u>Name</u>	<u>Title</u> (Before January 2006)	<u>Term Expires</u>
James Moeller	Mayor	12-31-05
Sara Oltrogge	Mayor Pro tem	12-31-05
Terry Dehmlow	Council Member	12-31-05
Lyle Faust	Council Member	12-31-06
Mike Isaacson	Council Member	12-31-06
Rod Diercks	Council Member	12-31-05
(After January 2006)		
Mike Isaacson	Mayor	12-31-08
Rod Diercks	Mayor Pro tem	12-31-08
Lyle Faust	Council Member	12-31-06
Dave Larson	Council Member	12-31-08
Jeff Rieckenberg	Council Member	12-31-08
Jeremie Peterson	Council Member	12-31-06
Larry Farley	City Administrator	Indefinite
Linda Krueger	Administrative Assistant	Indefinite
Dale Goeke	Attorney	Indefinite

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Denver, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Denver's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2005.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Denver as of and for the year ended June 30, 2006 on the basis of accounting described in Note 1. Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Denver as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated October 26, 2006 on my consideration of the City of Denver's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 20 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Denver's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Keith Oltrogge CPA". The signature is fluid and cursive, with the letters "Keith" and "Oltrogge" being more prominent than "CPA".

Keith Oltrogge
Certified Public Accountant

October 26, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Denver provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 4% or \$38,984 from fiscal 2005 to fiscal 2006. Property tax increased \$1,491.
- Disbursements increased 25%, or \$258,532, in fiscal 2006 from fiscal 2005.
- The City's total cash basis net assets increased 6%, or \$157,230 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased 10% or \$69,193 and the assets of the business type activities increased by 11% or \$226,420.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the electric utility, the electric utility deposits and the solid waste collection. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, electric utility and utility deposit funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$666,453 to \$597,260. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		Year Ended June 30, 2006
Receipts and transfers:		
Program receipts:		
Charges for service	\$	178,333
Operating grants, contributions and restricted interest		36,887
Capital grants, contributions and restricted interest		-
General receipts:		
Property tax		431,648
Local option sales tax		111,664
Unrestricted investment earnings		22,698
Miscellaneous		164,056
Transfers		10,420
Total receipts	\$	955,706
Disbursements:		
Public safety	\$	193,906
Public works		408,407
Health and social services		4,600
Culture and recreation		145,498
Community and economic development		1,263
General government		76,168
Debt service		195,057
Capital projects		-
Total disbursements	\$	1,024,899
Decrease in cash basis net assets	\$	-69,193
Cash basis net assets beginning of year		666,453
Cash basis net assets end of year	\$	597,260

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 144,475
Sewer	157,662
Electric utility	986,892
Utility deposits	8,650
General receipts:	
Unrestricted interest on investments	52,951
Miscellaneous	500
Total receipts	<u>\$ 1,351,130</u>
Disbursements:	
Water	\$ 139,820
Sewer	111,761
Electric utility	851,631
Utility deposits	10,914
Transfers	10,584
Total disbursements	<u>\$ 1,124,710</u>
Increase in cash balance	\$ 226,420
Cash basis net assets beginning of year	<u>1,886,656</u>
Cash basis net assets end of year	<u>\$ 2,113,076</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Denver completed the year, its governmental funds reported a combined fund balance of \$597,260, a decrease of \$69,193 less than last year's total of \$666,453.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in operating income and disbursements of \$27,889 each.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$664,630 in bonds and other long-term debt, compared to \$832,580 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation bonds	\$ 300,000	\$ 400,000
Revenue notes	308,305	356,610
Capital lease	47,968	62,615
Notes payable	8,357	13,355
Total	\$ 664,630	\$ 832,580

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Larry Farley, City Administrator, 100 Washington Street, Denver IA 50622.

Basic Financial Statements

City of Denver

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

			Program Receipts	
			Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
	Disbursements	Charges for Service		
Functions/Programs:				
Governmental activities:				
Public safety	\$ 193,906	\$ 46,767	\$ 6,445	\$ -
Public works	408,407	109,044	-	-
Health and social services	4,600	-	-	-
Culture and recreation	145,498	22,522	30,442	-
Community and economic development	1,263	-	-	-
General government	76,168	-	-	-
Debt service	195,057	-	-	-
Capital projects	-	-	-	-
Total governmental activities	\$ 1,024,899	\$ 178,333	\$ 36,887	\$ -
Business type activities:				
Water	\$ 139,820	\$ 144,475	\$ -	\$ -
Sewer	111,761	157,662	-	-
Electric utility	851,631	986,892	-	-
Electric deposits	10,914	8,650	-	-
Total business type activities	\$ 1,114,126	\$ 1,297,679	\$ -	\$ -
Total	\$ 2,139,025	\$ 1,476,012	\$ 36,887	\$ -
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted: Debt service				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities		Business Type Activities		Total
\$	-140,694	\$	-	\$ -140,694
	-299,363		-	-299,363
	-4,600		-	-4,600
	-92,534		-	-92,534
	-1,263		-	-1,263
	-76,168		-	-76,168
	-195,057		-	-195,057
	-		-	-
\$	-809,679	\$	-	\$ -809,679
\$	-	\$	4,655	\$ 4,655
	-		45,901	45,901
	-		135,261	135,261
	-		-2,264	-2,264
\$	-	\$	183,553	\$ 183,553
\$	-809,679	\$	183,553	\$ -626,126
\$	303,590	\$	-	\$ 303,590
	74,544		-	74,544
	53,514		-	53,514
	22,698	52,951		75,649
	275,720	500		276,220
	10,420	-10,584		-164
\$	740,486	\$	42,867	\$ 783,353
\$	-69,193	\$	226,420	\$ 157,227
	666,453		1,886,656	2,553,109
\$	597,260	\$	2,113,076	\$ 2,710,336
\$	1,842	\$	-	\$ 1,842
	595,418		2,113,076	2,708,494
\$	597,260	\$	2,113,076	\$ 2,710,336

City of Denver

**Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds**

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 303,590	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	111,664
Licenses and permits	3,714	-	-
Use of money and property	22,698	-	-
Intergovernmental	26,586	136,222	-
Charges for service	91,019	-	-
Special assessments	-	23,073	-
Miscellaneous	94,028	4,634	-
Total receipts	\$ 541,635	\$ 163,929	\$ 111,664
Disbursements:			
Operating:			
Public safety	\$ 193,906	\$ -	\$ -
Public works	61,663	346,744	-
Health and social services	4,600	-	-
Culture and recreation	145,498	-	-
Community and economic development	1,263	-	-
General government	76,168	-	-
Debt service	-	-	-
Total disbursements	\$ 483,098	\$ 346,744	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 58,537	\$ -182,815	\$ 111,664
Other financing sources (uses):			
Operating transfers in	\$ 29,544	\$ 83,748	\$ -
Operating transfers out	-27,142	-16,776	-111,664
Total other financing sources (uses)	\$ 2,402	\$ 66,972	\$ -111,664
Net change in cash balances	\$ 60,939	\$ -115,843	\$ -
Cash balances beginning of year	413,483	236,839	-
Cash balances end of year	\$ 474,422	\$ 120,996	\$ -
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	474,422	-	-
Special revenue fund	-	120,996	-
Total cash basis fund balances	\$ 474,422	\$ 120,996	\$ -

See notes to financial statements.

Debt Service		Total	
\$	53,514	\$	357,104
	74,544		74,544
	-		111,664
	-		3,714
	-		22,698
	-		162,808
	-		91,019
	-		23,073
	-		98,662
\$	128,058	\$	945,286
\$	-	\$	193,906
	-		408,407
	-		4,600
	-		145,498
	-		1,263
	-		76,168
	195,057		195,057
\$	195,057	\$	1,024,899
\$	-66,999	\$	-79,613
\$	77,710	\$	191,002
	-25,000		-180,582
\$	52,710	\$	10,420
\$	-14,289	\$	-69,193
	16,131		666,453
\$	1,842	\$	597,260
\$	1,842	\$	1,842
	-		474,422
	-		120,996
\$	1,842	\$	597,260

City of Denver

**Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Governmental Funds
As of and for the year ended June 30, 2006**

Total governmental funds cash balances (page 10)	\$ 597,260
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Cash basis net assets of governmental activities (page 9)	\$ 597,260
Net change in cash balances (page 10)	\$ -69,193
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Change in cash balance of governmental activities (page 9)	\$ -69,193

City of Denver

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds**

As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Electric Utility
Operating receipts:			
Charges for service	\$ 144,475	\$ 157,662	\$ 986,892
Operating disbursements:			
Business type activities	\$ 139,820	\$ 111,761	\$ 851,631
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 4,655	\$ 45,901	\$ 135,261
Non-operating receipts (disbursements):			
Interest on investments	\$ 6,827	\$ 11,394	\$ 34,598
Miscellaneous	-	-	500
Transfers, net	-	8,666	-19,250
Total non-operating receipts (disbursements)	\$ 6,827	\$ 20,060	\$ 15,848
Net change in cash balances	\$ 11,482	\$ 65,961	\$ 151,109
Cash balances beginning of year	257,506	405,304	1,214,556
Cash balances end of year	\$ 268,988	\$ 471,265	\$ 1,365,665
Cash Basis Fund Balances			
Unreserved	\$ 268,988	\$ 471,265	\$ 1,365,665

See notes to financial statements.

Enterprise Funds	
Utility Deposits	Total
\$ 8,650	\$ 1,297,679
\$ 10,914	\$ 1,114,126
\$ -2,264	\$ 183,553
\$ 132	\$ 52,951
-	500
-	-10,584
\$ 132	\$ 42,867
\$ -2,132	\$ 226,420
9,290	1,886,656
\$ 7,158	\$ 2,113,076
\$ 7,158	\$ 2,113,076

City of Denver

**Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2006**

Total enterprise funds cash balances (page 12)	\$ 2,113,076
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Cash basis net assets of business type activities (page 9)	<u>\$ 2,113,076</u>
Net change in cash balances (page 12)	\$ 226,420
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	
None	<u>-</u>
Change in cash balance of business type activities (page 9)	<u>\$ 226,420</u>

City of Denver

Notes to Financial Statements

June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Denver is a political subdivision of the State of Iowa located in Bremer County. It is incorporated and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, electric and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Denver has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Bremer County Assessor's Conference Board, City Assessor's Conference Board, Bremer County Emergency Management Commission, Bremer County Landfill Commission and Bremer County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the receipt of local option sales tax.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Utility Fund accounts for the operation and maintenance of the City's electric utility system.

The Utility Deposits Fund accounts for customer's deposits and refunds.

C. Measurement Focus and Basis of Accounting

The City of Denver maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the Debt Service Fund.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds, capital leases and notes payable are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		Fire Truck Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$100,000	\$8,650	\$48,305	\$16,064	\$15,298	\$2,135
2008	50,000	5,450	45,000	13,625	15,979	1,454
2009	50,000	4,075	50,000	11,330	16,691	743
2010	50,000	2,550	50,000	8,755	-	-
2011	50,000	875	55,000	6,155	-	-
2012	-	-	60,000	3,240	-	-
	<u>\$300,000</u>	<u>\$21,600</u>	<u>\$308,305</u>	<u>\$59,169</u>	<u>\$47,968</u>	<u>\$4,332</u>

Year Ending June 30,	Mower Note Payable		Total	
	Principal	Interest	Principal	Interest
2007	\$4,498	\$501	\$168,101	\$27,350
2008	3,859	232	114,838	20,761
2009	-	-	116,691	16,148
2010	-	-	100,000	11,305
2011	-	-	105,000	7,030
2012	-	-	60,000	3,240
	<u>\$8,357</u>	<u>\$733</u>	<u>\$664,630</u>	<u>\$85,834</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

During the year ended June 30, 2006, the City paid \$166,392 in principal payments and \$28,665 in interest payments.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$24,011, equal to the required contribution for the year.

NOTE 5 – INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Enterprise:	Special Revenue:	
Sewer Fund	Local Option Sales Tax	\$ 27,916
Special Revenue:	Special Revenue:	
Road Use Tax	Local Option Sales Tax	83,748
Debt Service	Special Revenue:	
	Road Use Tax	16,776
	General Fund	22,433
	Enterprise:	
	Sewer	19,250
	Electric	19,250
Total		<u>\$ 189,373</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 6 – RISK MANAGEMENT

The City of Denver is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

City of Denver
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 357,104	\$ -
Tax increment financing collections	74,544	-
Other city tax	111,664	-
Licenses and permits	3,714	-
Use of money and property	22,698	52,951
Intergovernmental	162,808	-
Charges for service	91,019	1,297,679
Special assessments	23,073	-
Miscellaneous	98,662	500
Total receipts	<u>\$ 945,286</u>	<u>\$ 1,351,130</u>
Disbursements:		
Public safety	\$ 193,906	\$ -
Public works	408,407	-
Health and social services	4,600	-
Culture and recreation	145,498	-
Community and economic development	1,263	-
General government	76,168	-
Debt service	195,057	-
Business type activities	-	1,114,126
Total disbursements	<u>\$ 1,024,899</u>	<u>\$ 1,114,126</u>
Excess (deficiency) of receipts over (under) disbursements	\$ -79,613	\$ 237,004
Other financing sources, net	<u>10,420</u>	<u>-10,584</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ -69,193	\$ 226,420
Balances beginning of year	<u>666,453</u>	<u>1,886,656</u>
Balances end of year	<u>\$ 597,260</u>	<u>\$ 2,113,076</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 357,104	\$ 358,603	\$ 358,603	\$ -1,499
74,544	75,000	75,000	-456
111,664	108,326	108,326	3,338
3,714	4,025	4,025	-311
75,649	20,450	20,450	55,199
162,808	194,366	205,055	-42,247
1,388,698	1,369,020	1,369,020	19,678
23,073	6,000	23,200	-127
99,162	7,500	7,500	91,662
<u>\$ 2,296,416</u>	<u>\$ 2,143,290</u>	<u>\$ 2,171,179</u>	<u>\$ 125,237</u>
\$ 193,906	\$ 221,911	\$ 230,000	\$ 36,094
408,407	419,800	438,000	29,593
4,600	3,000	4,600	-
145,498	145,601	145,601	103
1,263	2,500	2,500	1,237
76,168	92,798	92,798	16,630
195,057	115,298	115,298	-79,759
1,114,126	1,229,870	1,229,870	115,744
<u>\$ 2,139,025</u>	<u>\$ 2,230,778</u>	<u>\$ 2,258,667</u>	<u>\$ 119,642</u>
\$ 157,391	\$ -87,488	\$ -87,488	\$ 244,879
-164	-	-	-164
\$ 157,227	\$ -87,488	\$ -87,488	\$ 244,715
<u>2,553,109</u>	<u>2,348,543</u>	<u>2,348,543</u>	<u>204,566</u>
<u>\$ 2,710,336</u>	<u>\$ 2,261,055</u>	<u>\$ 2,261,055</u>	<u>\$ 449,281</u>

City of Denver

Notes to Required Supplementary Information -- Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues and disbursements by \$27,889. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amount budgeted in the Debt Service Fund.

Other Supplementary Information

City of Denver
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Capital Loan Notes:			
Community center	May 1, 2002	3.05-3.95%	\$250,000
Public works building	Sept 21, 2004	2.30-3.50%	\$300,000
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds:			
Schumacher Elevator Co.	Dec 1, 1999	5.0-5.4%	\$465,000
Do-It Corporation	April 1, 2002	5%	\$16,521
Capital Lease:			
Fire Truck (Kansas State Bank)	March 22, 1999 (Refinanced Aug 15, 2003)	4.45%	\$132,588
Note Payable:			
Mower (Denver Savings Bank)	June 30, 2005	6%	\$13,355

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$100,000	\$-	\$50,000	\$50,000	\$3,800	\$-
300,000	-	50,000	250,000	7,750	-
\$400,000	\$-	\$100,000	\$300,000	\$11,550	\$-
\$350,000	\$-	\$45,000	\$305,000	\$18,547	\$-
6,610	-	3,305	3,305	331	-
\$356,610	\$-	\$48,305	\$308,305	\$18,878	\$-
\$62,615	\$-	\$14,647	\$47,968	\$2,786	\$0-
\$13,355	\$-	\$4,998	\$8,357	\$2	\$0

City of Denver

Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Capital Loan Notes				Capital Lease	
	Community Center		Public Works Building		Fire Truck	
	Issued May 1, 2002		Issued September 21, 2004		Issued March 22, 1999	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2007	3.95%	\$50,000	2.3%	\$50,000	4.45%	\$15,298
2008		-	2.6%	50,000	4.45%	15,979
2009		-	2.9%	50,000	4.45%	16,691
2010		-	3.2%	50,000		-
2011		-	3.5%	50,000		-
		<u>\$50,000</u>		<u>\$250,000</u>		<u>\$47,968</u>

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Bonds (TIF)				Note Payable	
	Schumacher Elevator		Do-It Corporation		Denver Savings Bank-Mower	
	Issued December 1, 1999		Issued April 1, 2002		Issued June 30, 2005	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2007	5.05%	\$45,000	5%	\$3,305	6%	\$4,498
2008	5.10%	45,000		-	6%	3,859
2009	5.15%	50,000		-		-
2010	5.20%	50,000		-		-
2011	5.30%	55,000		-		-
2012	5.40%	60,000		-		-
		<u>\$305,000</u>		<u>\$3,305</u>		<u>\$8,357</u>

Year Ending June 30,	Totals Amount
2007	\$168,101
2008	114,838
2009	116,691
2010	100,000
2011	105,000
2012	60,000
	<u>\$664,630</u>

See accompanying independent auditor's report.

City of Denver

Schedule of Receipts By Source and Disbursements By Function –
All Governmental Funds

For the Last Two Years

	2006	2005 (Unaudited)
Receipts:		
Property tax	\$ 357,104	\$ 355,613
Tax increment financing collection	74,544	70,724
Other city tax	111,664	146,555
Licenses and permits	3,714	3,170
Use of money and property	22,698	41,866
Intergovernmental	162,808	165,406
Charges for service	91,019	97,167
Special assessments	23,073	-
Miscellaneous	98,662	25,819
Total	<u>\$ 945,286</u>	<u>\$ 906,320</u>
Disbursements:		
Operating:		
Public safety	\$ 193,906	\$ 192,283
Public works	408,407	225,473
Health and social services	4,600	3,000
Culture and recreation	145,498	147,516
Community and economic development	1,263	10,258
General government	76,168	71,854
Debt service	195,057	115,983
Capital projects	-	-
Total	<u>\$ 1,024,899</u>	<u>\$ 766,367</u>

City of Denver
Combining Schedule of Cash Transactions
Trust Funds

Year Ended June 30, 2006

	Expendable Trust			
	Library Building Trust	Cemetery Perpetual Care	Library Memorial Trust	Total
Receipts:				
Use of money and property:				
Interest on investments	\$ 1	\$ 2,342	\$ -210	\$ 2,133
Disbursements	\$ -	\$ -	\$ -	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 1	\$ 2,342	\$ -210	\$ 2,133
Balance beginning of year	150	17,609	3,298	21,057
Balance end of year	\$ 151	\$ 19,951	\$ 3,088	\$ 23,190

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Denver, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated October 26, 2006. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Denver's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Denver's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Denver's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Denver and other parties to whom the City of Denver may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Denver during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Keith Oltrogge CPA". The signature is stylized with a large, sweeping "K" and "O".

Keith Oltrogge
Certified Public Accountant

October 26, 2006

City of Denver
Schedule of Findings
Year ended June 30, 2006

Part I – Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Denver
Schedule of Findings
Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amount budgeted in the general government function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budgeted should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-06 Questionable Disbursements – I noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions – There were no business transactions between the City and City officials or employees.

II-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish monthly receipts.

Recommendation – The City should comply with Chapter 372 of the Code of Iowa and should publish minutes as required.

Response – We will comply with the Code requirements and will publish minutes and receipts as required..

Conclusion – Response accepted.